

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SSO-00 PM-05 PER-01 MMO-01 TRSE-00  
ABF-01 FS-01 L-03 OPR-02 SS-15 /042 W  
-----058405 271615Z /45

O R 271546Z JAN 78  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC IMMEDIATE 5290  
INFO SECDEF WASHDC  
USMISSION USBERLIN  
CINC USAREUR HEIDELBERG

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FOR ASSISTANT SECRETARY VEST FROM THE AMBASSADOR

E.O. 11652: EXEMPT  
TAGS: AFSP, AINF, GW, WB, AKB  
SUBJECT: STATUS OF U.S. CITIZENS AND RESIDENT ALIENS  
EMPLOYED IN LOCAL NATIONAL POSITIONS ADMINI-  
STERED BY US FORCES IN BERLIN

REFS: (A) USBER 207  
(B) USBER 214

1. I WOULD LIKE TO URGE APPROPRIATELY HIGH-LEVEL  
EXAMINATION WITHIN THE DEPARTMENT OF A TAXATION PROBLEM  
AFFECTING OUR INTERESTS IN BERLIN, IN PREPARATION FOR

INTER-AGENCY CONSULTATIONS WHICH I UNDERSTAND ARE TO  
TAKE PLACE IN WASHINGTON ON JANUARY 31. THE INTERNAL  
REVENUE SERVICE IS DEVELOPING THE POSITION THAT CERTAIN  
AMERICANS IN BERLIN WHO ARE PAID OUT OF OCCUPATION  
FUNDS AND WHO HERETOFORE HAVE ENJOYED A SUBSTANTIAL  
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EXEMPTION FROM US TAXES SHOULD BE CONSIDERED "EMPLOYEES  
OF THE US GOVERNMENT" AND THUS WOULD NOT BE ENTITLED  
TO THIS EXEMPTION. THIS POSITION, IF FINALLY ADOPTED,  
WOULD INCREASE US GOVERNMENT REVENUES BY ADDING  
TO THE OCCUPATION COSTS BORNE BY THE GERMAN GOVERNMENT.

2. US MISSION BERLIN HAS PROVIDED AN EXTREMELY HELPFUL

STRUCTURING AND EXPOSE OF THE SPECIAL PROBLEMS INVOLVED IN THE RULING THAT IRS IS PROPOSING. BERLIN'S MESSAGES (REFTELS A AND B) ALSO EFFECTIVELY ITEMIZE THE POSSIBLE ADMINISTRATIVE CONSEQUENCES AND SUGGEST THEIR PROBABLE POLITICAL IMPACT.

3. AS BERLIN HAS POINTED OUT, A CHANGE OF THE SORT PROPOSED BY IRS WOULD REQUIRE CONSULTATIONS WITH THE FRG. IT SEEMS LIKELY THAT THE ARGUMENTATION PRODUCED BY USBER AGAINST A FINDING THAT THE PERSONS IN QUESTION ARE "USG EMPLOYEES" WOULD BE THE VERY KIND OF ARGUMENTATION WE COULD EXPECT FROM THE FRG, WHICH WOULD PRESUMABLY THEREBY OPPOSE BEARING THE FINANCIAL CONSEQUENCES OF WHAT THEY WOULD LIKELY SEE AS A SELF-SERVING INTERNAL USG RULING.

4. I THUS URGE CAREFUL AND FULL CONSIDERATION OF THIS COMPLEX MATTER AS DESCRIBED BY USBER WITH A VIEW TO DETERMINING WHETHER THE NUMEROUS PROBLEMS DO NOT OUTWEIGH THE NET BENEFIT THAT THE IRS POSITION MIGHT PRODUCE FOR THE USG.

5. SHOULD THE IRS POSITION FINALLY PREVAIL NONETHELESS, IT IS IMPORTANT THAT WE BEAR IN MIND THAT THE FORESEEABLE NEGATIVE FRG POLITICAL REACTION WOULD BE SUBSTANTIALLY AGGRAVATED IF THAT POSITION WERE ALSO MADE LIMITED OFFICIAL USE

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RETROACTIVE AND COUPLED WITH AN ATTEMPT BY THE USG TO PLACE THE FINANCIAL BURDEN OF SUCH RETROACTIVITY UPON THE FRG. MOREOVER, AS ALL PARTIES HAVE ACTED IN GOOD FAITH, IT WOULD SEEM HIGHLY INEQUITABLE TO THE INDIVIDUALS AFFECTED IF THE IRS POSITION BECAME APPLICABLE BEFORE NEW WAGE CONDITIONS HAVE BEEN AGREED THAT TAKE INTO ACCOUNT THE FACT THAT FOR SOME THE PRESENT WAGES ARE BASED ON THE ASSUMPTION THAT THEIR INCOME QUALIFIES FOR THE SUBSTANTIAL EXEMPTION FROM U.S. TAXES.  
STOESSEL

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## Message Attributes

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**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** n/a  
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**Decaption Note:**  
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**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 20 Mar 2014  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
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**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Expiration:**  
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**Reference:** 78 USBERLIN 207, 78 USBERLIN 214  
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**Review Content Flags:**  
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**Status:** NATIVE  
**Subject:** STATUS OF U.S. CITIZENS AND RESIDENT ALIENS EMPLOYED IN LOCAL NATIONAL POSITIONS ADMINI- STERED BY US FORCES IN BERLIN  
**TAGS:** AFSP, AINF, GE, WB, AKB  
**To:** STATE  
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**Review Markings:**  
Sheryl P. Walter  
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